

**A Summary
of the
Montour School District's
403(b) Tax Sheltered Account Program**

Prepared by Kades-Margolis Corporation

This Summary Plan Document (SPD) booklet is a brief description of the 403(b) Tax Sheltered Account (TSA) Plan and program for our school district. A copy of the complete 403(b) Plan Document is available in the Business Office.

All of our school district employees, without exception, are eligible to participate in the district's 403(b) TSA. We urge you to read this booklet and familiarize yourself with its contents so you can take advantage of a benefit that is authorized by the Internal Revenue Service and made available to you through your school district.

The Internal Revenue Service permits employers to include or exclude various optional provisions in the district's 403(b) TSA Plan Document. The list of our district's available optional provisions is contained in APPENDIX A.

What is a 403(b) Tax Sheltered Account?

403(b) is a section of the IRS Code that permits the establishment of Tax Sheltered Accounts (TSA) for school employees to supplement their retirement income. A 403(b) TSA allows you to voluntarily set aside money from each paycheck to be put into a tax-deferred account. It's called an "elective deferral;" you notify the payroll office, by completing the Salary Reduction Agreement at the back of this SPD, that you wish ("elective") to have funds taken out of your pay ("deferral") and contributed to your 403(b) TSA. You may begin your contribution, change the amount of your contribution, or stop your contribution at any time. **All** school employees are eligible to participate in the district's 403(b) TSA program, including substitute teachers, part-time employees and periodic employees. (NOTE: Those employees who receive a regular bi-weekly pay check may select either a fixed dollar amount per pay or a percentage of pay to be contributed to their 403(b) TSA. Any employee who works variable hours or who does not have a regular bi-weekly paycheck must select a percentage of pay.) The funds withheld from your paycheck are then invested with a 403(b) provider that you choose from our list of approved companies (see APPENDIX B). **You** control how your funds are invested by consulting with a representative from the investment provider you select. Saving for retirement with a TSA is convenient and easy to do!

Why should you participate in a 403(b) TSA program?

First: It reduces your current income taxes. It is the first tax shelter that nearly every tax professional recommends.

Second: It provides for tax-deferred growth. Instead of paying income taxes on your bank interest earnings, all of your contributions, and the earnings on those contributions, are tax deferred until you take out the money. That will usually be after retirement when you will most likely be in a lower tax bracket.

Third: It supplements other retirement benefits, like your personal savings, Social Security and the PA School Employees Retirement System (PSERS). Who knows if any of us will get all the Social Security we're entitled to, given the budget shortfall of Social Security and Medicare? And, even though PSERS is one of the best retirement systems, you still have to live on the amount of that check from PSERS for the rest of your life. And many of today's employees will live longer retired than they worked. It is not uncommon for people to live to their late 80's, 90's or even 100. In fact, 20% of current PSERS retirees are 80 and above and nearly 200 PSERS retirees are above 100. Considering future scientific and medical advances, that PSERS check may have to last you 30 years or more. You need to supplement it with your TSA, which should reflect any economic growth during your career and retirement years.

How does a 403(b) TSA work?

Here's a simplified example of how a 403(b) TSA defers your taxes.

Let's assume you're married and your adjusted gross income is \$50,000.

By putting just \$100 a pay into your TSA your Federal tax bill will be reduced by \$650.

And, any taxes on earnings are deferred until you withdraw your money.

You'll have \$2,600 (plus any earnings) put away for retirement, and will have paid \$650 less to Uncle Sam.

Because of the tax advantage, putting \$100/pay into a TSA will only reduce take home pay by about \$75.00.

NOTE: For low and moderate income employees, the IRS offers the Savers Credit: a **tax credit** for contributing to a 403(b) TSA. Talk to one of the representatives of our approved companies (See APPENDIX B) if you think you might qualify for this credit.

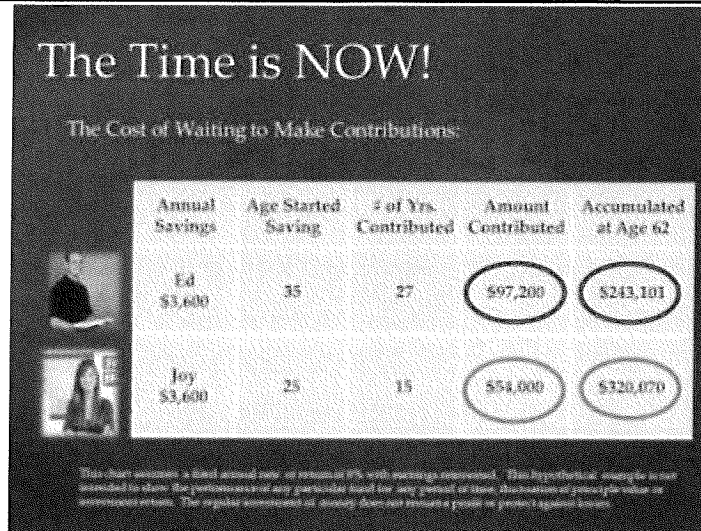
How much can you contribute to your 403(b) TSA?

The maximum amount you can contribute for the current calendar year is \$18,500. Everyone can contribute up to \$18,500 or 100% of salary if you make less than \$18,500. Beginning on January 1 of the year you turn 50, you may contribute an additional \$6,000, each year. If you're able and desire to contribute more than the maximum, refer to APPENDIX A to see if the district offers a 457 Deferred Compensation program. If a 457 Plan is available, you may be allowed to contribute similar amounts to that tax sheltered program.

When can I get my money out of my 403(b) TSA?

You may request a distribution when you retire, terminate your employment with the employer, or become disabled. Distributions prior to age 59 ½ may be subject to a 10% IRS tax penalty; however, if you separate service during or after the calendar year in which you turn age 55 you may withdraw your funds without incurring an IRS penalty. If you do not request a distribution, IRS regulations require that you begin distributions at age 70 ½ or upon retirement, if later. You should check with your investment provider representative to see if you are subject to any contractual withdrawal fees from the investment program you've selected. In the event of your death, 100% of your account balance is payable to your designated beneficiary.

When should you start contributing to your TSA?



The longer you wait to save, the more money you will need to save later. This chart compares two 25-year olds who both contribute \$300 a month (or \$3,600 per year) to a TSA and receive a 6% annual effective rate of return. Joy contributes for 15 years and then stops. Ed waits 10 years before getting started at age 35 and then contributes every year until retiring at age 62. Even though Ed contributes more money than Joy, his savings will never catch up with hers because his money has earned interest for 27 years compared to Joy's 37. This is due to the power of compounding your interest for long periods of time. This example clearly illustrates that investing is most advantageous when you get started as early in your career as possible.

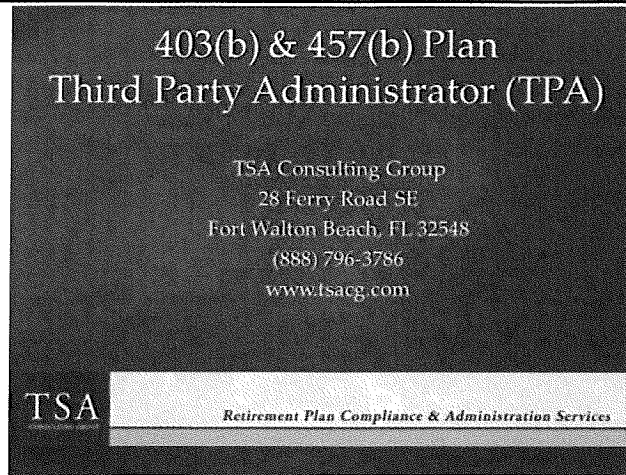
Where can I invest my 403(b) TSA contributions?

There are several investment providers available to you; however 403(b) TSA accounts may only be invested in fixed and guaranteed annuities, variable annuities, and mutual funds under a custodial agreement. **The list of all of the district approved investment providers for your 403(b) TSA appears in APPENDIX B.** Under IRS 403(b) regulations, our district employees may only invest their 403(b) TSA funds with the investment providers listed in APPENDIX B as long as the employee remains with our district. Fees associated with your investments will vary based on the investment provider you select. Refer to the prospectus and other materials provided by the investment providers for more information on any fees. Typical fees of the investment providers include:

- Recordkeeping fees (may be charged annually or quarterly)
- Investment management and administration fees
- Front-end or Back-end load charges
- Distribution fees

Before investing, you should carefully consider the investment objectives, risks, and charges and expenses of the mutual funds or annuity contracts available under your employer's plan. Also, an investment in a mutual fund or variable annuity involves risk, including loss of principal, and is not a deposit or obligation of, or guaranteed by any bank. The investment return and principal value of an investment in a mutual fund or variable annuity will fluctuate so that you may have a gain or loss at redemption.

What company is administering the district's 403(b) TSA Program?



The district has chosen **TSA Consulting Group, Inc.** as the third party administrator because of their experience and reliability. They employ a full service flexible technology platform that provides secure Internet access by both employers and employees. You can get immediate answers to your questions regarding all contributions and transaction processing requests, as well as access all necessary forms on their website www.tsacg.com. (**NOTE: The TPA charges no fees to employees.** There may be fees associated with your investment that your investment provider and/or investment fund may charge as indicated in the previous section.)

How do you get your 403(b) started?

- Contact one of the investment provider representatives listed in APPENDIX B of this SPD to open a TSA account.
- Remove and complete the Salary Reduction Agreement in the back of the SPD, download a copy from the TSA Consulting Group, Inc. website: www.tsacg.com, or obtain a copy from your payroll office.
- Complete and turn the Salary Reduction Agreement into the district payroll office.

APPENDIX A
Optional Provisions Included in our district's 403(b) TSA Plan

Eligibility

Under our 403(b) TSA Plan document, **all** of our school employees, without exception, are immediately eligible to make contributions under our 403(b) TSA Plan. This includes full-time employees, part-time employees, substitute teachers, periodic employees and any other employee that will receive compensation reported on the IRS W-2 Wage and Tax Statement form.

Changing Your Investment Provider

Exchanges

Our 403(b) TSA Plan does permit exchanges. An “exchange” is defined by the IRS as moving your 403(b) TSA account from one of our approved investment providers to another of our approved investment providers, as listed in APPENDIX B. Under IRS 403(b) TSA regulations, you may only invest your 403(b) TSA funds with the investment providers listed in APPENDIX B, as long as you are employed by our district.

Transfers

Our 403(b) TSA Plan does permit transfers, both into our plan and out of our plan. A “transfer” is defined by the IRS as moving your 403(b) TSA account from one employer’s 403(b) TSA Plan to another employer’s 403(b) TSA Plan when you change employment. If you have a 403(b) TSA with a previous employer, and that employer’s 403(b) TSA Plan permits transfers out of their 403(b) TSA Plan, you may transfer the account with the previous employer to our 403(b) TSA Plan. However, you must transfer the account to one of our district approved investment providers listed on APPENDIX B. If you leave employment with our district, you may transfer your account to a subsequent employer’s 403(b) TSA (if that employer’s 403(b) TSA Plan allows for incoming transfers) or you may rollover your account (see below).

Rollovers

As required by IRS regulations, our 403(b) TSA Plan does permit rollovers. A “rollover” is defined by the IRS as moving your 403(b) TSA account upon the occurrence of a “distributable event” (age 59 ½, death, disability, separation from service, etc.). Once you leave employment with our district, (or upon another distributable event) you are permitted to rollover your 403(b) TSA account to any other IRS permitted account, such as an IRA.

To begin the process for an exchange, transfer or rollover, meet with the representative of the investment provider you wish to move your account to, open an account with that new provider and complete the necessary paperwork the new provider requires. *[NOTE: There may be fees associated with investing with the new investment provider and/or fees associated with withdrawing funds from the previous investment provider (surrender charges, etc.). Be sure you obtain, understand and accept any fees the new and previous, investment providers are charging.]* Then, download and complete a Transaction Authorization Form from the district’s TPA website (www.tsacq.com) (or obtain a copy from the payroll office). Transmit the completed Transaction Authorization Form along with other documentation to the TPA.

Loans

Our 403(b) TSA Program does permit you to borrow funds from your 403(B) TSA; however, you need to check with your investment provider to determine if your investment provider permits loans. To begin the process, download a Transaction Authorization Form from the district's TPA website (www.tsacq.com) (or obtain a copy from the payroll office); then meet with the representative of your investment provider. Transmit the completed Transaction Authorization Form along with other documentation to the TPA. Loans are subject to IRS regulations and Section 4 of the school district's 403(b) Plan Document.

Financial Hardship Distributions

Our 403(b) TSA Program does permit you to apply for a Hardship Distribution from your 403(B) TSA. To begin the process, download a Transaction Authorization Form from the district's TPA website (www.tsacq.com) (or obtain a copy from the payroll office); then meet with the representative of your investment provider. Transmit the completed Transaction Authorization Form along with other documentation to the TPA. Hardship Distributions are subject to IRS regulations and Section 5 of the school district's 403(b) Plan Document.

Roth 403(b)

Our 403(b) TSA Program does permit you to contribute to a Roth 403(b). Like a Roth IRA, Roth 403(b) contributions do not tax shelter current income; they are funded with after-tax dollars. One advantage of a Roth is the earnings grow tax free; there are no taxes on withdrawals from a Roth 403(b) if all of the Roth and 403(b) rules are followed. The maximum annual contribution for a Roth 403(b) is combined with the traditional 403(b) TSA: For the current calendar year, \$18,500 and \$6,000 for the age 50 catch-up. For example: if you're under 50 years of age, you could contribute \$9,000 to a traditional 403(b) TSA and up to \$9,500 to a Roth 403(b). Contact one of the investment providers listed in APPENDIX B for more information about the Roth 403(b). Roth 403(b) contributions are subject to IRS regulations and Section 2.2 (b) and Section 10 of the school district's 403(b) Plan Document.

APPENDIX B
Authorized Investment Providers This 403(b) TSA Plan

	<u>Contacts</u>	<u>Phone</u>
KADES-MARGOLIS CORPORATION	Matt Cunningham	800-433-1828 X 146
LINCOLN INVESTMENT PLANNING, LLC	Barbara Doyle	800-242-1421 X 4543
LINCOLN NATIONAL LIFE INS CO	Perry Shull	800-454-6265 X 6430
METLIFE INSURANCE CO	Zachary Economoe	724-891-1800
OPPENHEIMER FUNDS	N/A	800-835-7305
P&A GROUP	John Burik	724-468-5665
PLANMEMBER SERVICES	N/A	800-874-6910
VALIC	Plan Sponsor Team	888-478-7020
VANGUARD INVESTMENTS	Small Business Services	866-226-1105
VOYA FINANCIAL	Tony Trovato	888-410-9482